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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
CAPITOL WATER CORPORATION FOR) **CASE NO. CAP-W-14-01**
AUTHORITY TO INCREASE ITS SCHEDULE)
NO. 3 PURCHASED POWER ADJUSTMENT) **COMMENTS OF THE**
RATE.) **COMMISSION STAFF**
)
)
)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33086, submits the following comments.

BACKGROUND

On July 11, 2014, Capitol Water Corp. (“Capitol Water,” the “Company”) filed an Application seeking authority to change its Schedule No. 3 (power purchase cost adjustment (PPCA)) rate. See Application at 1. Capitol Water seeks to recover its increased power costs above embedded base power supply costs caused by recently approved changes to Idaho Power Company’s electric rate schedules. Idaho Power is Capitol Water’s electric supplier. The Company asks that the proposed Schedule No. 3 changes take effect on September 1, 2014. Capitol Water says its costs of purchasing electric power have increased due to recent increases

in Idaho Power's rates per Order Nos. 33047 (Case No. IPC-E-14-03) and 33049 (Case No. IPC-E-14-06).

Capitol Water asks the Commission for permission to replace the Company's current Schedule No. 3 PPCA of 4.20% (see Case No. CAP-W-13-01) with a new PPCA of 4.53% that incorporates Idaho Power's current rates and Capitol Water's costs of processing this Application.

STAFF ANALYSIS

Capitol Water requests an increase in the PPCA rate that the Commission approved last year in Order No. 32858 (Case No. CAP-W-13-01). The Company calculates the PPCA using the same methodology as used in previous PPCA rate adjustments. See Order Nos. 32858, 32607, 32325, 32056, and 30881.

Staff comments address two issues: (1) whether the Company's revenue request exceeds the revenue requirement band; and (2) the additional power costs above those currently embedded in base rates. Staff proposes corrections to both the revenue band calculations and additional power costs as discussed in greater detail below. When the Staff's proposed corrections are taken into consideration and the Commission adopted method is applied, the revenue band requirement is not met. Because the revenue band requirement is not met, Staff does not agree that an increase in the PPCA rate is appropriate at this time.

Revenue Band

In 2009, Capitol Water filed an Application (Case No. CAP-W-09-01) to initially establish a tariff schedule to recover its cost of electricity related to the annual increase or decrease in Idaho Power's Power Cost Adjustment (PCA). In the 2009 case, the Commission ordered that "in the event that Idaho Power's PCA adjustment falls inside of Capitol Water's 0.25% revenue band, the Company will continue to recover this amount of expense in subsequent years when no application is filed with the Commission." Order No. 30881 at 2-3. Staff demonstrates on Attachment A, line 14 that the current change in power supply costs falls inside Capitol Water's 0.25% revenue band. Thus, no change in tariff Schedule No. 3 is warranted at this time.

In calculating the revenue band requirement, the Company used the Total Incremental Power Revenue included in Current Capitol Water Rates (Application, Exhibit No. 1, line 11),

which does not include the rate filing costs. Staff observes that in previous cases, the Company's "Existing Expenses above Embedded Base Rates" (including both power supply and rate case costs) is compared with the "Revised Total Expenses above Embedded Base Expenses" (also including both power supply and rate case costs). See Staff Attachment A, lines 9 and 11. When this comparison is performed with the correct "Revised Total Expenses above Embedded Base Expenses," the percent increase in the Company's total revenue requirement is 0.245% ($\$1,666$ incremental power cost/ $\$679,131$ current revenue x 100, see Attachment A). The 0.245% increase (even if rounded) falls inside the 0.25% band, or in other words, does not exceed the 0.25% threshold. Therefore, Staff asserts that it is not appropriate for the Company to file for a rate adjustment, but rather to continue the current PPCA rate of 4.20%.

Idaho Power Rate Adjustments

When the Company filed its initial PPCA Application (Case No. CAP-W-09-01), it asked the Commission to approve a new tariff schedule that would enable the Company to recover purchased power costs directly related to Idaho Power's PCAs. Staff interprets Commission Order No. 30881, specifically the directive to "file for an adjustment of its total revenue to recognize changes in power costs," to include changes in Idaho Power's PCA costs and all other miscellaneous Idaho Power rate changes. This requirement is also incorporated in prior Commission Orders addressing this issue. See Order Nos. 32858, 32607, 32325, and 32056.

In the current case, the requested Capitol Water rate adjustment includes Idaho Power rate increases due to the following:

- Updated base rates (IPC-E-13-20, Order No. 33000);
- Changes to the Fixed Cost Adjustment (FCA) rates (IPC-E-14-03, Order No. 33047); and
- Changes to the PCA rates (IPC-E-14-05, Order No. 33049).

Commission Approved Methodology in Calculating PPCA

The methodology used to calculate the incremental power cost increase in Capitol Water's previous five PPCA cases starts with actual 2005 energy consumption and actual 2008 energy cost to determine an actual 2008 cost per kWh ($\$0.0519$ per kWh from Order No. 30762). A 2005 test year was used in Capitol Water's most recent general rate case in 2008. Because actual energy consumption in 2005 was determined to be significantly above normal (1,940,746

kWh), a three-year average was used to calculate normalized annual energy (1,454,401 kWh). Normalized, base rate power supply costs of \$75,483 were then determined by multiplying normalized energy and the average rate per kWh (1,454,401 x \$0.0519). The average cost per kWh for Capitol Water under Idaho Power's new rates was then calculated using the 2005 actual energy consumption model.

Using the same methodology as employed in the previous cases and applying the new Idaho Power rates effective June 1, 2014, the Company calculated the average rate of \$0.0715 per kWh. This is the restated average cost per kWh. With this adjusted rate, the expected power cost is \$103,937 (1,454,401 x \$0.0715). The power cost above what is embedded in rates due to Idaho Power's rate changes is \$28,454 (\$103,937 - \$75,483). Including the proposed costs of \$1,100 to process this Application, brings the overall expense to \$29,554 above base rates. The Company is currently collecting \$27,393 from the 4.20% PPCA approved last year in Order No. 32858. Because the Company uses \$26,293 as its base for 2013, the incremental revenue increase is \$3,261 (\$29,554 - \$26,293). If the 2013 base is revised to include the previously approved rate case costs, the Company's request is for an incremental revenue increase of \$2,161.

In reviewing the Company's input of current Idaho Power rates to the power cost model, Commission Staff discovered the following: (1) an incorrect power cost adjustment rate for Idaho Power Schedule 9S-Large General Service-Secondary; (2) an overestimate for the first 300 kWh for non-summer rates under Idaho Power Schedule 7; (3) an underestimate for the Energy Service rates under Idaho Power Schedule 91; and (4) an underestimate for the Franchise Fee rates under Idaho Power Schedule 95. Using the corrected values and formulas, Staff recalculated the average cost per kWh to be \$0.0711. See Staff's Attachment A for a comparison of calculations between the Company and Staff. Staff notes that these are the same minor corrections proposed in the prior PPCA case, and were agreed to by the Company and accepted by the Commission. Order 32858 at 2.

Based on an average cost per kWh of \$0.0711, Staff's revised expected power cost is \$103,442 (1,454,401 x \$0.0711) and the power cost above what is embedded in base rates is \$27,959 (\$103,442 - \$75,483), or \$29,059 including rate case costs. The Company is currently collecting \$27,393 from the 4.20% PPCA (see Order No. 32858), for a Staff calculated incremental rate increase of \$1,666.

To recover the additional \$1,666, the PPCA would otherwise increase to 4.46%. This increase — which the Staff does not recommend — would be reflected in the Company's Schedule 3 (Other Recurring and Non-Recurring Charges) and result in an overall percent impact to annual non-metered customer bills of 0.245%. Metered commercial customers would experience the same incremental percentage increase, although the annual dollar impact will vary based on usage. Again, Staff's calculations do not support an increase in rates at this time because the revenue adjustment falls within the 0.25% band.

Staff also notes that the \$1,100 in consulting costs (10 hours at \$110/hr) to identify the level of rate change and create the Company filing would not have been incurred if the incremental increase had been properly calculated. Staff estimates that only 50% of the consultant costs (\$550) should have been incurred to identify the incremental increase. The resulting change in current rates would only be 0.164%. Consequently, if the Commission chooses to increase the PPCA, Staff believes it should only be increased to recover an additional \$1,116 (\$1,666 - \$550) or 4.37%.

CUSTOMER RELATIONS

The Company included its customer notice with bills mailed on August 1, 2014. A press release was issued on July 11, 2014. Staff reviewed both documents and found two deficiencies. Rule 125 of the Commission's Rules of Procedure requires all utilities to inform customers that written comments regarding the application may be filed with the Commission, and that customers may subscribe to the Commission's RSS feed to receive periodic updates via email about this case. See Rule 125.01.d and 125.04, IDAPA 31.01.01.125.01.d and -125.04.

The Rules of Procedure were revised recently, with changes becoming effective on February 15, 2014. Staff recommends that the Company review the updated Rules of Procedure and include all required information in its customer notices and press releases in the future. As of August 19, the Commission had not received any comments from customers regarding Capitol Water's proposed increase.

RECOMMENDATIONS

The increase in Power Cost above Embedded Base Expenses falls inside the 0.25% band as set out in Order No. 30881. Therefore, Staff does not recommend an increase in the PPCA at this time.

Staff recommends that the Company review the updated Rules of Procedure and include all required information in its customer notices and press releases in the future.

Respectfully submitted this 20th day of August 2014.

For 
Neil Price
Deputy Attorney General

Technical Staff: Johanna Bell
Kathy Stockton

i:umisc/comments/capw13.1npjkl comments

Attachment A: Company and Staff Rate Component Comparison

Line	Rate Component	Company		Staff	
1	Base Revenue	\$651,738	a/	\$651,738	Per Order #30762 in CAP-W-08-02
2	Normalized 3 Yr Average Power Consumption (KWh)	1,454,401		1,454,401	Per Order #30762 in CAP-W-08-02
3	Average Cost per KWh	0.0519		0.0519	Per Order #30762 in CAP-W-08-02
4	Power Cost Embedded in Basic Rates	\$75,483		\$75,483	Line 3 X Line 2
5	Restated Average Cost Per KWh @ New IPC Rates	0.0715	b/	0.0711	Calculated in Workpapers
6	Power Cost with New IPC Rates	\$103,937		\$103,442	Line 5 X Line 2
7	Power Cost above Embedded Base Power Supply Costs	\$ 28,454		\$27,959	Line 6 - Line 4
8	Rate Case Costs	\$1,100		\$1,100	
9	Revised Total Expenses above Embedded Base Expenses	\$29,554		\$29,059	
10	Total Revenue Required with New IPC Rates	\$681,292		\$ 680,797	Line 9 + Line 1
11	Existing Expenses above Embedded Base Rates	\$26,293		\$ 27,393	Per Order #32858 in CAP-W-13-01
12	Total Current Revenue	\$678,031		\$679,131	Line 1 + Line 11
13	Increase or (Decrease) in Power Costs	\$3,261		\$1,666	Line 9 - Line 11
14	% Increase or (Decrease) in Total Revenue	0.48%	c/	0.245%	(Line 10 - Line 12) / Line 12
15	Exceeds +/- 0.25% Revenue Band?	Yes		No	
16	Purchased Power Cost Adjustment (PPCA) Required	4.53%	d/	4.46%	Line 9 / Line 1

a/ From Company Application, Exhibit 1.

b/ From Company Worksheets - uncorrected.

c/ Calculated % Revenue Band.

d/ PPCA = Incremental Power Revenue at new IPC rates/Base revenue x 100.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 20TH DAY OF AUGUST 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-14-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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